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Yugoslavia: Economic Stagnation and Social Instability in Kosovo

Four years after major rioting among ethnic Albanians in the southern province of Kosovo, Belgrade still is unable to ease tight security and has not adequately addressed the region's economic grievances. Rapid population growth is eroding per capita wealth and contributing to Kosovo's continuing relative economic backwardness within the Yugoslav federation. The government's large investment in capital-intensive industries has failed to exploit a growing labor surplus, and an already serious unemployment problem is likely to worsen over the next few years.

Sociopolitical Unrest

Friction between ethnic Albanians and neighboring slavic groups remains Yugoslavia's most inflamed nationality problem. On 7 December, Belgrade announced one of the biggest roundups of ethnic Albanian nationalists since the 1981 disorders. The Interior Ministry said 50 Albanians from several regions would be put on trial for organized antiregime activities and links to foreign (read Albanian) intelligence services. It reported that one security official was injured in a shootout and that several of those arrested had previous records.

The sociopolitical problem clearly persists. Last year, a Kosovo official revealed that 668 Albanian nationalists had been sentenced since 1981, of whom 442 were still in prison. The problem of repeat offenders is likely to grow as more nationalists arrested in 1981 are freed. The regime continues to rule out granting nationalist demands for a separate Albanian republic, opting instead for an uncertain policy combining a heavy security presence with economic aid.

Poverty and Stagnation

One of the factors that has fueled unrest in Kosovo is the region's continuing poverty compared to the rest of Yugoslavia. Kosovo is one of the country's richest regions in farmland and natural resources, but it has more in common with the Third World than Europe.

In 1984, Kosovo's per capita gross social product (similar to GNP) of \$414 was roughly one-third of that for Yugoslavia as a whole and one-sixth of that of the country's wealthiest republic, Slovenia. Unemployment in the region—about 35 percent of the labor force—is 2.5 times the national rate, with little prospect for improvement.

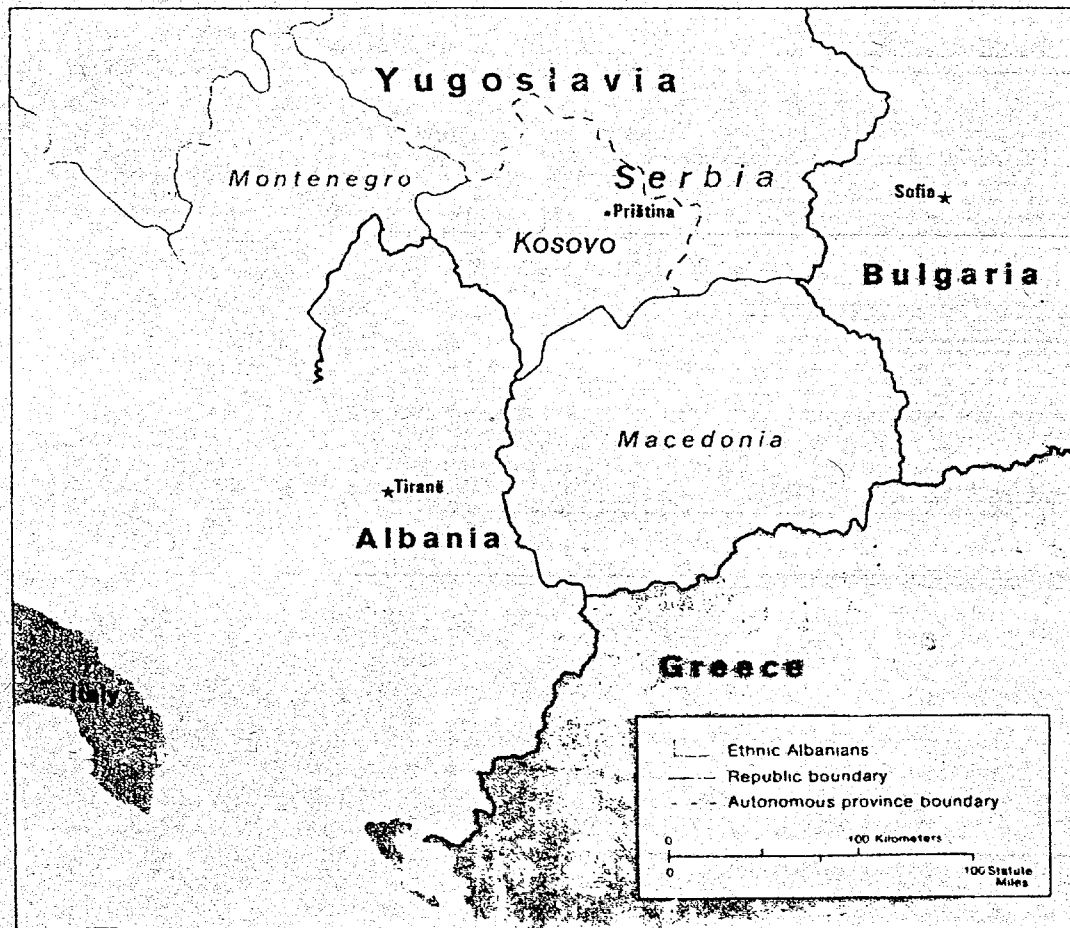
Belgrade's economic aid to Kosovo—\$95 million in 1985 at current exchange rates—has contributed to improvements in some sectors of its economy but has been unable to keep pace with rapid population growth. At 3.5 times the national rate, Kosovo's population growth has kept per capita wealth below the rest of Yugoslavia, and the gap has widened in recent years. Rapid population growth has been accompanied by a demographic shift toward the city and growth of a large educated class with few job prospects. Kosovo's development also has been depressed by low rates of work force participation, slack labor demand, and poor worker productivity. The Kosovar worker is only 74 percent as productive as the average Yugoslav and must support more than twice as many nonworkers.

Investment Policies

Investment in Kosovo has been concentrated on capital-intensive heavy industry to exploit the province's considerable natural resources. Local authorities have promoted development of two large enterprises to extract lead, zinc, and nickel deposits, but these projects are heavily in debt. While one operates below its processing capacity and faces exhaustion of its ores, the other is producing for a weak world market.

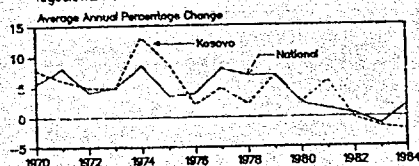
Kosovo has rich reserves of lignite coal and presently sells 60 percent of the electricity it generates to other parts of Yugoslavia. Local officials are currently trying to secure outside financing to expand generating capacity. Electricity sales, however, do not

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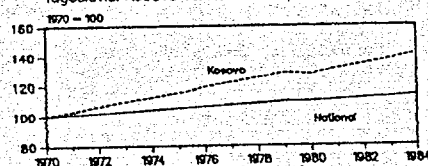
While the Kosovo economy has grown at rates comparable to those for Yugoslavia as a whole...

Yugoslavia: Kosovo vs. National Gross Social Product Growth



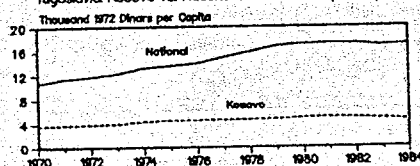
...the population of Kosovo has grown much more rapidly...

Yugoslavia: Kosovo vs. National Population Growth



eroding per capita economic growth and widening the gap with the rest of Yugoslavia.

Yugoslavia: Kosovo vs. National Social Product per Capita



earn revenue for the province because the Belgrade government has set the price below cost [REDACTED]

Little investment has been channeled into labor-intensive projects to exploit the province's large labor surplus. A few labor-intensive projects in agriculture have been successful, and [REDACTED]

The Chamber of Economy of Kosovo wants more such investment in the 1986-90 planning period. Most investment funds, however, are already committed to capital-intensive projects [REDACTED]

Declining Subsidies

The external funding that Kosovar planners have come to depend on is likely to become scarcer over the next few years. Such funding comes from heavily subsidized loans and direct transfers from the federal government as well as from legally mandated direct investment from other provinces. The Yugoslav Federal Executive Council recently suggested that repayments of loans made to Kosovo during 1982-85 be postponed until 1990 since the province does not currently have the resources to meet these obligations. [REDACTED]

The developed republics of the north—mainly Slovenia and Croatia—continue to resist providing federal grants for Kosovo, an area they see as a black hole. The northern republics are dragging their feet on compulsory contributions to the Federal Fund for Underdeveloped Areas that are earmarked for Kosovo. The Slovene Executive Council has stated that it wants a limit on contributions, and Serbia has actually obstructed Fund legislation in an attempt to change the way its contributions are handled. [REDACTED]

Outlook

Economic prospects for Kosovo are not bright, and Belgrade's options there will continue to be limited for the next several years. Rapid population growth probably will not slow through the end of this century, leading to the persistence of poverty, high unemployment, and the potential for social instability. The provincial leadership will have little room to maneuver in modifying past investment errors, and uncertainty about federal funding will reduce the chances for needed labor-intensive investment in the future. The province's relative economic position within the Yugoslav federation can be expected to decline further as northern areas continue to move ahead. [REDACTED]

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